

## FACT SHEET 2 – Starting up your own business

Starting your own business is a big decision to make as it requires an awful lot of thought before you jump in and go it alone. Will you be a sole-trader, are you going into partnership with someone else, will you set up a Limited company or be a Limited Liability Partnership?

Work out how much you need to survive before you walk into your boss's office and tell them that you are leaving? You need to ensure that you have the potential client base to generate that income.

Running your own business is not for the light hearted, there will be struggles, you will need to devote a lot more hours than you did when you had a job. You will also need to be a jack of all trades you may be a fantastic plumber but do you know how to do your own books and your legal requirements?

Another point to consider is that when you're away on holiday you won't be earning any money; are your clients going to stay loyal or go elsewhere while you're on the beach or do you have cover? Your clients are the most important asset to your business because without them you don't have a business; remember if you don't look after your clients someone else will. Deciding your trading style is the next big decision to make so below please see the various alternatives open to you: -

A **Sole-Trader** is simply that; a person that initially goes into business alone although he or she can employ staff. There are no legalities involved in setting up as a sole-trader but you will need to inform your local tax office and HMRC of your new status. At the end of the financial year (5<sup>th</sup> April) you will have to complete a self-assessment form disclosing your earnings. In your first year however, you will have until the end of January the following year to do this.

Being a sole-trader though means you are personally liable for any debt that your business incurs so if your business fails owing money; you can be pursued by them. It is also best to open another bank account so that you just have business transactions going through it.

The next option is a **Partnership**, this is when you go into business with one or more other people; you will both / all still be classed as self-employed though.

It is important that you draw up a legally endorsed written agreement setting out the terms of the partnership including shared liabilities. As with a sole-trader all partners are liable for any debts the business incurs; so be sure that your partner(s) is / are people you trust.

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A **Limited Company** is your third option and it is a legal entity with rules and regulations to follow so you need to ensure that you and any co-directors adhere to them.

The main advantage of having your own Limited Company over being a self-employed sole-trader is that any debts the business incurs, you will not be liable for. One point to note here though is that some suppliers may seek personal guarantees from the directors should the business fail. Be careful when agreeing to personal guarantees as this can have serious repercussions further down the line.

The final option available to you is a **Limited Liability Partnership** which again, is a legal entity the same as a Limited Company. The partners will still be taxed as if they were self-employed but they are given some protection from the creditors.

There are tax advantages and implications with all four types of business so it is important that you do your homework, speak to your accountant, solicitor or bookkeeper and decide which is best for you.